GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6946
ANSWERED ON:18.05.2012
MORTGAGING GOVERNMENT SECURITIES
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Will the Minister of FINANCE be pleased to state:

(a) whether Government has taken note of excessive increase in the loan being availed by public sector banks from Reserve Bank of India (RBI) by mortgaging Government securities;

(b) if so, the details thereof during each of the last three years and the current year, bank-wise;

(c) the reasons for increasing the quantum of loan availed during the said period; and

(d) the details of the adverse effects likely to be caused to the economy as a result such market intervention?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) Scheduled Commercial Banks (SCBs) including the Public Sector Banks (PSBs) invest in Government Securities as part of their statutory requirement to maintain the Statutory Liquidity Ratio (SLR). The Reserve Bank of India (RBI) manages day-to-day liquidity in the banking system through its Liquidity Adjustment Facility (LAF), which is available to SCBs. Under this facility, banks short of liquidity can borrow from the RBI overnight (for one day) at the Repo Rate by keeping government securities as collateral. This is in line with the best international practices.

(b) The details of RBI LAF operations as regards net absorption or injection with the public sector banks during the last three years upto November 15, 2011 are given below:

(Rs. In crore)

Year	Net absorption (-) / Injection (+)
2008-09	(-)5938
2009-10	(-) 62,562
2010-11	(+)30,427
2011-12 (Upto Nov. 15,2011)	(+)17,867

Bank-wise details of the LAF operations are enclosed at Annex.

(c) & (d): Borrowings by banks from the Reserve Bank of India (RBI) with the Government securities as a collateral is a normal liquidity management operation for banks and this happens whenever there is overall liquidity deficit in the system. The net borrowings of banks from RBI, in the recent times, is a reflection of the deficit liquidity conditions. This has helped strengthen the monetary transmission mechanism and is consistent with the anti-inflationary stance of monetary policy.